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The
**MANAGEMENT
REVIEW**

July, 1930

**Industries in Which Mergers Are Necessary
to Solve Marketing Problems and to
Increase Earnings ***

By RAY B. PRESCOTT, *Marketing Counselor*

THREE are probably a number of industries both large and small in which the present underlying conditions make it quite desirable for certain companies to combine, so that they can better market their products and increase their earnings.

The heritage of the war left many American industries with a well developed idea of mass production and the capacity for accomplishing it, but without the necessary equally well matured process of mass distribution. In other words, it left many of our industries in serious maladjustment.

There is a growing conviction among thinking executives that one of the most important, if not *the* most important, problem facing industry to-day is the problem of distribution. During the war, as we all know, huge capacities were created which demand mass production for efficient operations. The war demands simply hastened the day; this would probably have come by itself in few years and the adjustment between production and distribution would not have been so distorted as it is now, although it might have been out of balance. Now mass production is impossible without mass distribution and mass distribution is also impossible under the present marketing machinery with its contingent rising costs.

For the past twenty years or more manufacturing costs have been steadily

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The object of the publications of the American Management Association is to place before the members ideas which it is hoped may prove interesting and informative, but the Association does not stand sponsor for views expressed by authors in articles issued in or as its publications.

decreased in many industries, yet the ultimate price to the consumer has as steadily gone up, simply because the cost of distribution has increased faster than the cost of manufacturing has decreased. It goes without saying that to increase prices is one of the surest methods of curtailing demand; so many industries find their sale's increase definitely check-mated because of their inability to reduce prices in the face of increasing distribution costs.

To bring about the necessary balance is going to require a number of consolidations, making it possible to eliminate some of the excess capacity and at the same time to coordinate some of the distributing forces.

Manufacturing Costs in the Motor Industry

The motor industry is probably the one outstanding example in which manufacturing costs during the past ten years have been decreased faster than distribution costs have increased. It has become increasingly evident that this favorable condition has almost reached its end. Production cost at the present time can probably be reduced little, if any without taking it out of the quality of the product, which means that if any further substantial price reductions are to be experienced in the industry they will have to come by reducing distribution costs.

This accomplishment, though it deserves much credit, has however, by no means affected the distribution problems of which there are plenty and which are by no means minor ones.

Along with the automotive industry there are no doubt many others in which the manufacturing problems are thoroughly understood. I mean by that, that the factors such as labor cost, raw material cost, machine cost, the technique of manufacturing the products are to-day merely a matter of routine. On the other hand, in these same industries one can find a most astounding lack of appreciation of the distribution problems and an extreme reluctance to intelligent research for solving these problems. This may possibly be due somewhat to the lack of size and financial ability which could be remedied if undertaken by a larger group.

Perhaps this indifference towards distribution problems may be partly accounted for by the fact that the problem of distribution has had a somewhat insidious growth; gaining importance since the war. On the other hand most of our industrial leaders to-day have been confronted with the problems of production during the greater part of their manufacturing experience; consequently they are what might be termed "production minded" because until recently most industries have been able to produce to the limit of their capacity without any thought being given to the consumption of their goods. This millennium of production reached its peak during the war and immediately after, but now in the course of our industrial evolution, this thing called distribution has grown to be a factor of giant proportions replacing in import-

ance the old problems of manufacturing. So that now industry needs men who not only have a knowledge of manufacturing, but also men who have a complete understanding and appreciation of distribution. The methods of solving these two problems have nothing in common. In the first case all the factors of manufacturing are under the control of the executives, while the problems of distribution and consumption are not at all under the control of any manufacturing executive because no executive can control or materially shape the buying habits of a hundred million people. When and how much is purchased is purely a case of probability. I have met several leaders in the motor industry who thought that by high-pressure advertising and sales methods they could change the seasonal buying habits of people purchasing cars—it simply cannot be done to any material degree because people will buy when they have the money and the spirit moves them. It becomes quite obvious that it is necessary for an executive to-day to be "distribution minded." I do not mean by that, that it is necessary for him to understand the technique involved in the solution of these problems, but it is imperative that he have an appreciation of the value of the scientific approach to the solution of these problems. In industries consisting of many small concerns it will undoubtedly require a combination of a number of units in order satisfactorily to solve the distribution problems.

In the automotive industry there are about thirty passenger car manufacturers with a capacity for about 7,000,000 cars a year, striving for a market that will consume this year about 4,000,000 passenger cars. To further heighten the gloom, 92 per cent of this business will be taken by seven manufacturers. As can be plainly seen, little is left for the others.

Cut-Throat Competition in Dealer Distribution

Having seen the broader aspect in this relationship between operating capacity and consumption, let us look at just one of the smaller distribution centers in this country from which excess capacity is trying to squeeze out sufficient volume to help pay dividends. In the south there is a small town in which there are six different makes of cars being handled by six different dealers, each trying to eke out an existence. It simply cannot be done as there is not the demand there for a sufficient number of cars to give all of the dealers a living. In one month there were seven cars sold in this place and of these, five went to one dealer. This is not an isolated example. It is typical throughout the country and it breeds nothing but cut-throat competition which is only useless and wasteful.

The same condition is similarly true among the truck manufacturers, where 20 per cent of the manufacturers do 80 per cent of the business. The situation is further complicated by the fact that some of the car manufacturers are entering the commercial car field, already over-crowded, in the hope of

improving their financial position. A number of the small truck manufacturers are assembling trucks in different parts of the country which cater only to the local market. As quick service is one of the primary features of a truck sale they have been able to secure a small local business against the competition of some of the large companies.

Among the parts manufacturers another unsatisfactory condition exists. Here one will find not only excess capacity but also a high degree of hazard. A parts manufacturer may secure a contract to supply a certain part for a year or two and suddenly find that it has been dropped because the manufacturer to whom he was supplying the part had decided to build it himself or because some manufacturer outside the industry needing extra work has secured the contract to supply that part without profit, or even at a loss, in order to keep his idle machinery operating part of the time; the car manufacturer cannot be blamed for securing his parts where they are the cheapest.

The tire industry has also a maladjustment between its ability to produce and distribute its products, especially tires, their most important source of income. The industry has five large producers, eight fairly large, and forty small companies. The big "FIVE" take 75 per cent of the tire business, but are able to operate at only about 66 per cent of their capacity owing to the wasteful competition in the rest of the industry.

Style—Dominating Element in Distribution of Textile Products

The textile industry has probably the worst case of maladjustment between its production capacity and distribution of any industry in the country. It certainly is much worse than the automotive. It not only has a large number of small mills independently and inefficiently operated to contend with but it has the most fickle and elusive element with which business has to deal—Style—and this happens to be the dominating element in the distribution of textile products. No merger can eliminate this element but it can through its scientific research, anticipate the coming style. These large numbers of small mills give the industry greater capacity than it needs. Along with these mills that operate irregularly there are also a number which might be called "in the twilight zone," which operate only when there is a boom—and that has not been for some time.

In the above paragraphs I have briefly outlined certain elements seriously affecting the earnings in the automotive and related industries and in one part of the textile field. Similar conditions would undoubtedly be found in many other industries for which the same solutions are possible as those under discussion.

A merger of some of the independent car manufacturers into one or two units similar to General Motors would permit the elimination of certain models for which there is little or no demand and allow for concentration of adver-

tising and sales effort on the more profitable ones. It would also tend to cut down on some of the excess capacity and very materially reduce unsatisfactory competition, briefly mentioned above, by removing from the market certain cars which are being sold simply because of excessive trade-in-allowances on used cars given by the dealers handling them. These cars are no better and in many cases not as good a car as can be purchased from a dealer handling a better established line but who cannot continue in business long without a legitimate profit on the new car sales.

Reducing Distribution Costs and Increasing Earnings

The combination, resulting from such a merger of independent manufacturers, should see the end of much of this wasteful competition now existing throughout the United States. It would also create a corporation large enough to have a research staff to study its distribution problems, eliminating much of the instability now existing in the industry. This in itself should materially reduce distribution costs and increase earnings. At the present time the industry has three large manufacturers; namely, Ford, General Motors and Chrysler. Now if the independents should combine to form perhaps two more, the industry would have five, no one of which would have 60 per cent of the business, consequently would hardly run amuck of the Sherman Anti-Trust laws.

In the parts field, a merger of complementary products, entering into the construction of the car, would give such an organization enough financial strength to resist easily the temptation of supplying the car and truck manufacturers with parts without a reasonable profit and it would also give them sufficient size to develop the replacement side of the business which, with 26.5 million vehicles in operation, would give them a fine outlet for the major portion of their products. The replacement side of the business will also definitely increase from year to year. There have already been several mergers in this field along this general line but there is still room for several more. Under a combination such as this it would be possible with the various types of machinery to enter other fields when the peak demand for the use of their machinery comes during different months of the year. Thus by diversifying their lines, they would be able to keep their plant operating on a much more even keel. Operation of this kind always helps to increase earnings, helps to utilize excess capacities that cannot be eliminated any other way and at the same time removes some, if not all, of the wasteful competition.

Again, in the tire industry, there is to be found excess capacity largely created during the war. There are five big companies and about fifty small ones. Here is an industry whose sales exceed a billion dollars a year; yet they make less than 4 per cent on their investment. This is due to the extremely variable price of crude rubber and to over-capacity which creates

cut-throat methods of marketing their products. A merging of some of the smaller companies with some of the already large producers and perhaps another combination of some of the smaller companies would make it possible to eliminate much of the excess capacity which in turn would do away with the cut-throat sales practice now in vogue. By combining several of the smaller companies producing tires, mechanical goods and foot-wear, it would be possible to balance production schedules to a much greater degree than is now possible in any single company.

In the textile industry, where many of the manufacturers are faced not only with over-capacity but with the ever changing style element, a merger that would bring together several different types of textile products, so that when one ceases to be in vogue the chances are that the others would not, would help a great deal. As it is now, it is not at all uncommon for a textile firm to find that the demand for its product has passed for a season or two, making it necessary sometimes to close the plant for a considerable period. On the other hand, when this particular commodity is enjoying its run of favor, the plant is operated at the peak of its capacity. By combining the manufacture of several different types of fabrics, the average yearly earnings could be increased, over-capacity largely reduced and the marketing of the products simplified. It would also correct seasonal demand if the choice of fabrics were carefully made. A merger would also take the management problems out of weak and inefficient hands and certainly eliminate methods now practiced dating back to the Civil War days.

As a rule, a number of unsuccessful companies can hardly hope to be successful by merging their various interests. As an old French chef once said, "It isn't possible to make a good omelette out of rotten eggs." On the other hand, it might be possible to combine one or two unsuccessful companies with a strong one so that all would be benefited by the combination.

Developing a Research Staff

Combinations resulting from mergers that have been only briefly outlined above should result in corporations large enough, with management sufficiently appreciative of the importance of distribution problems to develop a research staff headed by a highly trained executive. This executive should sit on the board. Industry can materially reduce its losses by synchronizing its production schedules with its sales.

Mergers are no panacea for all the industrial ills. Even the merging of several companies among the examples already mentioned, where many of the fundamental conditions existing in the industry readily lend themselves to such treatment, would not necessarily augur success unless the combining managements could look beyond selfish interests to the larger good. This is not always easy to accomplish.

THE MANAGEMENT INDEX

Abstracts and News Items

GENERAL MANAGEMENT

Everybody's Business

The present slump in business should make us alive to the importance of future developments. Too many of us are ignoring some of the fundamental factors that are responsible for permanent progress, and devoting thought to short-time rather than long-time trends. Failure to evaluate correctly a single new invention may upset a carefully formulated schedule of development. Little companies as well as big ones, if they are well managed, are now laying out five and ten-year programs of expansion. As one example out of numberless other possible ones, what will be the effect on American life of a change that puts tens of millions of Asiatics to work with machines? Will the increase in purchasing power of the Far East masses offset the bad effects of a new competition for world markets? It is even possible that new industries will be created at such a rapid rate that the bogey of unemployment will be banished forever. By Floyd W. Parsons, *The Manufacturing Jeweler*, June 12, 1930, p. 6:2.

Vocational Gains and Losses in Machine Age

Summing up the losses and gains of employment during the seven years from 1920 to 1927 in the six large fields of industry covered under the terms of production, transportation and communication, distribution, professional and semiprofessional occupations, domestic and personal service, and Government service, we find that two million jobs have been lost and nearly two million five hundred thousand gained.

In the same period the net decline of employment in the industries of transportation and communication exceeded two hundred thousand and the Government services dispensed with some two hundred and twenty thousand workers. Here are nearly two million eliminated jobs and nearly two million persons forced to find new employment, since it may be assumed that they have not the means to enable them to live in idleness.

Seven years ago there were only twenty-five thousand workers in the radio industry, while now there are one hundred and fifty thousand. Electric refrigeration was virtually unknown in 1920, while now it gives employment to forty thousand people.

Oil heating has created thirty thousand new jobs. The number of insurance agents has increased almost one hundred thousand in seven years. From 1920 to 1927 the number of persons employed in the motion picture industry grew from two hundred thousand to three hundred and fifty thousand.

And so on. For each item of decrease we have as an offset other items of increase. By J. C. Wright. *U. S. Daily*, May 26, 1930.

Sees Necessity of More Straight Thinking in Business

Sir Josiah Stamp, speaking before the Bond Club of New York, called attention to the necessity for more straight thinking and said, "There has never before been such a mania for collecting statistics and information, but what the world needs is a new technique of thinking. Many people

have open minds today, so open that everything falls out. I am astounded," he added, "at the way the average American business executive is surrounded by charts, graphs and every scientific economic invention, but I cannot perceive that the mental equipment of these executives has increased proportionately."

He said that the English coal industry had been so thoroughly surveyed that in that particular case knowledge is complete but it has not brought the industry any closer to peace. Facts are of no use unless they are mixed with imagination and interpretation. *American Metal Market*, June 10, 1930, p. 7.

What's Ahead for Business?

High lights from the Annual Meeting of the U. S. Chamber of Commerce are found in an extra edition of *Nation's Business*. Business leaders express themselves on such subjects as: How to Keep Business in Balance (Robert P. Lamont); Production Can Be Stabilized (Howard Coonley); the Changing Field of Banking (Robert L. Barnes); the Fertile Field of Foreign Trade (Robert Smith); Trends in Industrial Development (Arthur W. Crawford); and others. *Nation's Business*, May 20, 1930.

Styling Modern Merchandise

What evidence is there to show that the public ever "demanded" anything either in design or utility that was not already avail-

able? What the public really craves is guidance. It is not willing to risk its own judgment in matters of taste but seeks it from sources it respects.

The industrial designer must accept the facts of mass production and mass selling. He must design things which can be made by machines and sold to the millions. Industrial designs should be logical and sensible, but not necessarily smart or fashionable. The future years will bring convenience and beauty undreamed of today. By Vaughn Flannery. *Advertising & Selling*, April 16, 1930, p. 19:2.

The Place of the Design Engineer in Business

Every business, large or small, no matter what it makes, should appoint some one on its staff as its Design Engineer. He must be Ensemble-Minded. This word is now part of our business language and can be logically applied to the design coordination of delivery trucks, packages, car cards or booklets. There is not only aesthetic consideration behind the Ensemble idea, but efficiency and economy as well. When the elements of a campaign are properly coordinated they drive home a single idea, and this repetition builds up a recognition in the mind of the beholder. The creation of one technique applied to the styling of various elements will require the minimum amount of energy. By Abbott Kimball. *Advertising & Selling*, June 11, 1930, p. 82:2.

FINANCIAL MANAGEMENT

The World Bank and the New Bonds

The events of the year have made it increasingly difficult to ignore America's stake in the conduct and settlement of the reparation question and in the Bank for International Settlements as the new transfer agent. Not only are two Americans on the directorate, one as president of the new bank, but there is the fact that the major part of the payments into the World

Bank by Germany will be transferred by the Allies to the United States.

There are international differences of opinion about the World Bank. London is the same watchful market as ever, none too pleased that it is located at Basle instead of the City, and distinctly uneasy about the drain of gold to Paris. Paris wants to equal London and New York as a world financial center and investor in the

securities of other countries. The Americans, between the Scylla of Europe's eagerness for America's money and the Charybdis of a certain timid provincialism in their constituents "back home", walk with caution.

The second major difficulty has concerned the character of the bonds. The French obviously want the bonds to be international in character; that is, those issued in one market should be capable of transfer to another market and another currency. There also has been controversy about the rate of interest on the bond issue.

On the whole, opinion is in favor of giving the Bank for International Settlements as large a chance as possible to stabilize the rather uncertain financial trends of the present day, and the British hope that its activities will not be limited to reparation functions. They want it to fulfill the Young committee's expressed hope that the bank should "promote an increase in world trade." By Alzada Comstock. *Barron's*, May 26, 1930, p. 3:2.

Budgetary Procedure and Control

The success of budgeting depends upon care and skill in planning and upon watchfulness and wisdom in making actual results conform to the budget. It is not too much to say that budgeting has become the keystone of modern business management.

This little pamphlet develops the broad principles to be observed, gives examples of the application of budgeting to business, notes the benefits to be derived from budgeting, and stresses the essential value of budgets for purposes of policy-making.

Budgets are nothing more or less than detailed prognostications of the future. No man can conduct a business without some such prognostications and in the case of a complicated business the field is too broad to be carried in mind or to be expressed in general terms. The budget furnishes a means of charting a course accurately and insuring that a business will come out at the end of a given time

where it is desired to have it come out subject to unavoidable developments. It also furnishes a better means of checking up on expenditures than does a comparison with past performance, because a good budget must be planned to point out possible economies and to stimulate the endeavor to make them. By Harold V. Coes. 11 pages.

Corporation Accounting Data from the Standpoint of the Investor

One of the crying needs of the hour is better corporation accounting data. As statisticians, we need more and better data concerning revenues and expenses. Various intangibles and time series can be measured and compared only in dollars. As business analysts and forecasters, we need to know much more about "sales", and "turnover" of accounts receivable, etc. As economists, we want more data showing dollar performance, variations in net earnings, movements of profits in the business cycle, etc. As business men, we could get valuable lessons from standard operating ratios. It is the original and primary purpose of accounts to show the proprietor the true state of his business, including the property used. The interest of the investor, then, could also be well served by more and better data. Not a few of our great corporations do present good statements, reasonably detailed and frequent. This is a *prima facie* reason for believing others can do likewise.

Some of the weaknesses in the published corporation accounting data, which prevent the business analyst from knowing what are the investments or the true earnings of many corporations, are the following:

First, corporation accounting statements lack detail, standardization, and constancy of form. Frequent changes in form make continuity of analysis impossible.

Another important shortcoming is the lack of frequency of accounting statements.

Aside from amount of detail, standardization, continuity, and frequency, the outstanding points are the handling of surplus

reserves, of inter-company accounts, of the valuation of assets used in the business, and of the distinction between capital and revenue charges. The two most important points are reserves for depreciation and depletion, and the valuation of assets, both fixed and current. Data should be available to allow us to know the true: net sales during a period; inventories; net earnings; current position (working capital, current ratio, cash); total capital employed; net worth. Then we could compute the vital operating and financial ratios: turnover of total capital employed; turnover of fixed capital; turnover of net worth; turnover of inventories; turnover of accounts receivable (collection period); profits on sales; profits on investment.

As the most practical immediate step, Mr. Haney suggests that the Federal Trade Commission (or a special commission) be authorized at once and be directed to make an analysis of the information given by corporations to stockholders, for the purpose of reporting what the situation is, what standard statements should be issued by different industries, and the best method of enforcing reasonable publication to stockholders of the earnings and assets of their companies. By Lewis H. Haney. *Journal of the American Statistical Association*, March, 1930, Supplement, p. 7:6.

Banking in the Soviet Union

True communism does not admit the necessity of money, or of any of the features of the financial systems of capitalist states. Acting on this theory, the Soviet government, soon after assuming power, nationalized all the existing banks, confiscated their assets, and suspended their business. A catastrophic decline in the purchasing power of the ruble followed, which was not arrested until the introduction of a new gold-secured currency and the balancing of the budget for the fiscal year 1924-25. Three years earlier, in 1921, the Soviet government had found it necessary to reinstate banking as one of the economic functions of the state, and had

instituted the State Bank, called Gosbank for short, which is still the cornerstone of the Soviet banking system. Other banks followed in due course. The State Bank has its main office at Moscow, and now maintains 546 branch offices covering the Soviet Union. The Central Agricultural Bank, also located at Moscow, was founded in 1924 for the purpose of aiding in the development of agriculture and of industries manufacturing agricultural products. Through a total of 174 branches, the Central Agricultural Bank grants credits to the new peasant collective farms, and assists them in other ways. *American Bankers Association Journal*, April, 1930, p. 951:2.

The Use and Operation of Standard Costs

The use of standards and the development of variances have a beneficial result in conserving the management's time. In the majority of cases operations run along fairly smoothly and only a relatively few details actually require the management's attention each day, but how is the management to locate these details promptly enough to give them the attention they need in time to be of any use? Obviously the mill manager cannot personally go over all of the figures each day and pick out certain ones which require his attention. By systematically comparing results with standards daily and developing variances the results which are much out of line will immediately be apparent. In all other cases the variances will be credits or of negligible amounts. This is what is termed the "Principle of Exceptions" and is a real aid in conserving the management's time and energy.

For this reason as many factors as possible ought to be standardized. For example, standards can be set for material costs, labor costs, productions per unit of time, etc. So far as possible the standards should be set after a careful study of the situation. Expense standards are usually set on the basis of past experience tem-

ered by a careful consideration of future requirements. This should always be done in conjunction with the heads of the departments affected because it is a cardinal rule in standard costs that the man responsible for meeting them should be thoroughly familiar with all the details of setting them and, if possible, they should be his standards.

In the case of material standards for usages this is largely a technical problem and the standards are set with the best available data as regards yields both chemical and actual, that is to say the first step is to take the chemical yields as a base and then modify them in accordance with what past experience shows to be practical. Labor standards and standards involving a time element are best set on the basis of actual time studies. By D. A. Wilcox. *Chemical Markets*, May, 1930, p. 495:5.

Industry Paid 22% of Year's Charity

Corporations contributed 22 per cent of all funds raised during 1929 for organized welfare services in 129 cities in the United States, according to a nation-wide study by the National Bureau of Economic Research, made public June 2, covering a year of investigation and analysis. It will be published in full in a 350-page volume shortly.

In the 129 cities analyzed corporations made 33,977 contributions to community chests totaling \$12,954,000 or 22 per cent of the total of \$58,801,000 collected by the chests. In 1920 corporations made 2,652 contributions aggregating \$2,535,000 to the thirteen community chests then organized.

"Perhaps the most significant fact revealed by the study is the great number and amount of corporation contributions to welfare, charitable and health work," said Mr. Paul D. Cravath, chairman of the sponsoring committee and a prominent authority on corporation practices.

"Clearly, this indicates a changing attitude in the minds of business leaders regarding the relationship between corpora-

tion enterprise and human welfare. It is still unlawful for a corporation to give away its stockholders' money in gratuities, but apparently this kind of participation in community welfare is no longer regarded as gratuitous.

"Corporations are beginning to see, it appears, that the preservation of human health and happiness, and the betterment of the social standard generally in communities in which they operate is not mere alms-giving, but is legitimately and logically a recognized part of the cost of doing business." *The New York Times*, June 3, 1930.

Another Year of Business Forecasts

This study carries forward through October, 1929, a previous one, "An Appraisal of American Business Forecasts," published last December covering the period November, 1918, to October, 1928.

As in the earlier study the forecasts evaluated are those relating to the course of general business activity, not those relating to security prices.

Two tests are applied: Test 1 assumes that the client of a service needs a monthly series of definite forecasts and that a correct prediction of no change is as valuable as a correct forecast of expansion or contraction. Test 2 assumes that what the client needs is a forecast of the advent of each major turning-point in business. The results of the application of these tests are tabulated. The quotations selected as representing the general business forecasts of the services from month to month appear as an appendix to the article. By Garfield V. Cox. *The Journal of Business*, University of Chicago, April, 1930, p. 151:20.

Financing Problems of Modern Consolidations

Larger profit margins, more rapid turnovers of capital, or both, are the basic motives of economically desirable consolidations. These may be sought in many directions. This article suggests possible

benefits of consolidations to be contributed by the financing function, department or activities, i.e., by consolidating treasury departments; and discusses the important factors to be considered in formulating the financial structure or capitalization of consolidations.

The two general methods of consolidation, informal or loose and formal or cohesive, are treated in detail. Five suggested capitalization plans are analyzed and the results tabulated. By S. P. Meech. *The Journal of Business*, University of Chicago, April, 1930, p. 109:50.

OFFICE MANAGEMENT

Organization: *Job Analysis, Employment, Pay, Tests*

Measuring White-Collar Output

A review of some results from measured production of office work. Analysis of hundreds of clerical positions has revealed that most routine office work can be classified under: figuring, entry or transportation, classification, checking or comparison. It is no longer a question of whether clerical work can be measured—after work has been standardized ways of measuring can easily be devised. By Eugene J. Benge. *System*, June, 1930, p. 514:3.

Wage and Personnel Survey

This report of the Field Survey Division of the Personnel Classification Board will be found useful as a handbook by those who are interested in classification and compensation plans, and various other phases of personnel work. While most of the data applies to government positions, there is also included a summary of personnel policies of private concerns. Report of Wage and Personnel Survey, 70th Congress. House Document No. 602.

Benefit Systems and Incentives: *Pensions, Profit Sharing, Suggestions, Vacations, Stock Ownership*

Higher Pay for Clerks and Lower Office Costs

The Supervisor of Clerical Research Work at Cheney Brothers describes their clerical task and bonus plan that has been in operation for 10 years. Forms used in operating this plan are shown. Experience has shown that accuracy does not suffer when the clerks increase their speed in

order to earn bonus. The result of this measuring clerical output eliminated the complaint of unfairness in office work, and not only showed what constituted an average week's work, but revealed that many a clerical job did not constitute a full week's work. Time study offers the only way of telling what a fair accomplishment should be. By Gertrude M. Ballsieper. *System*, March, 1930, p. 228:3.

Training and Education: *Schools, Libraries, Employee Publications*

Billing Clerks and Meter Readers Receive Special Training

Plans have been made to give special training to meter readers and billing machine operators throughout the territory of the Public Service Company of Northern Illinois. Beginning June 30 and ex-

tending to August 2, billing clerks and bill checkers from all the districts will attend a regular training school where they will learn the operating technique of new billing machines and the method of rendering bills on these machines according to both the new and old rates. Each group of ten will receive training for three or four

days. To assist in demonstrating the new methods to the operators a motion picture has been made of one of the employees operating one of the new machines. *Public Service Company of Northern Illinois News*, June 15, 1930, p. 2:1.

What Business Expects from a Collegiate Business Training

The comptroller of the A. T. & T. Co. says that students should know the economic structure of business and appreciate its place as an institution in our social order. He also stresses the importance of proper vocational guidance, and feels that valuable elements of business education may also be obtained from the extra-curricular activities of students. By C. A. Heiss. *Journal of Business Education*, May, 1930, p. 18:4.

Offers Better Letters Course to Employees of All Goodyear Plants

Employees of all Goodyear plants are for the first time being offered the advantage of Goodyear Industrial University training. The G. I. U. extension school plans to reach Goodyear employees all over the world through a number of correspondence courses. *The Wingfoot Clan*, May 14, 1930.

Characteristics of a Conference Leader

Temperament and personality should receive more consideration in the choosing of a conference leader than previous experience and education. The best leader will be a man whose past experience gives him an all-round working knowledge of all the angles of the company's business rather than

one with specialized technical experience. He must be democratic and pleasant; inspirational and enthusiastic but not vivacious; careful in his personal appearance; sincere, straightforward and high principled.

Four factors are essential to a successful training program: 1. Proper launching by the management; 2. A detailed curriculum or text book for a chart; 3. A rigid schedule of conferences; 4. Measurement of results by continuous sampling. Where all these are provided for the training conference will justify its cost. By P. W. Melton and E. G. Cox. *Aera*, May, 1930, p. 283:3.

Training Future Business Leaders

Lack of competent leaders costs an industrial organization much money and the cost of their training is money well spent. These facts are fully realized by the Westinghouse Electric and Mfg. Co., which has maintained a successful student training course for some thirty years.

Four hundred graduates from about 100 technical colleges are chosen each year to be given a year's training preparatory to their assumption of positions of growing responsibility in the company.

The curriculum of the course is described in this article by the manager of the educational department. The Westinghouse company figures its investment per man for the first year at about \$2,000, of which the cost to the company has been about 50 per cent. The remainder is paid for in the form of productive work during the training period. By Carl S. Coler. *The Iron Age*, June 12, 1930, p. 1741:4.

Administration: *Regulations, Supplies, Communications*

Six Ways of Cutting Mailing Costs

Experience of the Burroughs Adding Machine Company in analyzing classes of mail. Large savings are possible through the proper designing of advertising matter. A thorough knowledge of mailing regula-

tions is necessary, and wall charts showing rates can be developed which save a great deal of time. Charging the postage used to the various departments makes for a more careful choice between air mail, special delivery, etc. Checking incoming

mail from company agencies and service stations revealed a waste which was easily corrected by sending an excess postage report to each offender. By Don E. Rogers. *System*, June, 1930, p. 517:3.

What Paper for Business Records

An economical paper for the use intended may be chosen by answering such questions as: To whom does the form go? Customers, office, factory or shop? Do you

write on it with pen, pencil or typewriter? How long will it be in active use? How long will it be filed before being destroyed? How much is it handled? Is it folded when filed? How often is it referred to? If a colored form, is the color a factor in your system? Tests have been developed which show the life of a paper, which obviate buying an expensive stock for temporary use. By Robert C. Fay. *System*, June, 1930, p. 520:1.

Space: Location, Equipment, Arrangement

Rents and Salaries in 100 Cities

The results of a nationwide investigation are tabulated under the headings of cashiers, chief clerks, stenographers, routine clerks, and average rent per square foot. Rent per square foot does not vary according to the size of the company repre-

sented or the amount of space occupied, but it varies according to the location of the office and type of space used. Salaries, however, vary according to the size of the agency as measured by the clerical force. A large agency is apt to pay more for the higher grades of workers. By Henry E. Niles. *System*, June, 1930, p. 507:2.

PRODUCTION MANAGEMENT

Industrial Economics: Labor and Capital, Legislation, Wage Theory, Immigration

The Tariff and Organized Labor

For some years the position of the American Federation of Labor on the tariff has been one of neutrality. At different times a few of the international unions affiliated with the Federation have asked Congress for a protective tariff on certain imported commodities which have adversely affected their membership. Other unions, on occasion, have felt that lower duties on some import would work to their advantage. While the Federation has acceded customarily to requests for legislative assistance it has been careful that its actions would not be interpreted as embodying a policy favorable either to protection or free trade. It remains to discover whether there occurs among labor organizations a rapid or a slow revamping of cherished

points of view on the tariff, but doubtless labor will be carried along in the main current of evolution. Such organizations as the Potters and the Glass Bottle Blowers, with their employers who are vitally concerned in securing high tariff duties may not want to make an abrupt transition in their position, and may succeed temporarily in erecting barriers behind which they may find protection. But these are exceptions and will not alter the general course of events. It is believed that the Wage Earners' Protective Conference, organized in 1928, will not grow in influence and that economic developments will lead in a direction opposite to that which the Conference faces. By Lyle W. Cooper. *The American Economic Review*, June, 1930, p. 210:16.

A Criticism of Stimulated Construction As a Cure for Business Depression

Having shown that the planned prosperity theory fails to correct the causal mal-adjustments, Mr. Harwood suggests the possibility that the scheme of stimulated construction as a cure for business depression may be actually harmful. His argument is that by treating excess with new stimulation we are continuing the unwise practices responsible for the initial collapse and tending to delay the inevitable readjustment. By E. G. Harwood. *The Annalist*, May 30, 1930, p. 1155:2.

Plans Fund for Pay in Unemployment

An unemployment plan for General Electric workers, designed to make funds available for employees during times of need or unemployment, was announced by President Gerard Swope. The money will be raised through equal contributions by the employees and the company. Many provisions in the plan are a result of suggestions from committees of leading workmen.

At the same time Mr. Swope announced a plan for the stabilization of employment by reducing to a minimum its cause and effect. Rules are set down for all plants of the company as to what to do and what not to do when business is either on the increase or work is falling off. The unemployment plan may be adopted by any works, regardless of the action of other plants, and the company will participate upon an affirmative vote of 60 per cent or more of the eligible employees of that works. Any employee with continuous service with the company of a year or more is eligible for membership.

By enrolling, the participant agrees to pay into a trust fund created by the plan about 1 per cent of his earnings for a period of three years, so long as they are 50 per cent or more of his average full-time weekly or monthly earnings.

In abnormal times of unemployment, normal contributions by participating employees would cease and all employees

would be called upon to contribute. Thus employees who are subject to lay-offs would aid themselves as much as possible, and, when they could no longer do this, employees who are still working would contribute toward the aid of the men who are laid off. The General Electric Company would itself contribute in both instances to an equal extent to that of the participating employees.

The funds will be in charge of a board of trustees and the company will guarantee 5 per cent interest.

Under the plan for stabilizing employment, regulations set down by Mr. Swope are:

When Business Is Increasing

Increase the working force by adding employees as slowly as possible.

Increase the number in especially busy departments by transfers from other departments.

Resort to overtime in particular departments and generally before increasing the working force.

Postpone plant renewal and maintenance work as much as possible, employing the men on regular production.

When Work Begins to Fall Off

Cease hiring at once.

Cut out all possible overtime and bring departments down to the normal week.

Transfer people from slack to busier departments.

Stimulate the sales department to obtain cooperation from customers and get business for future delivery.

Build standard apparatus for stock up to appropriate number of months' shipments, based on average of last three years' sales, adjusted to expectation of next two years.

See that stocks at all factory and district warehouses are brought up to the maximum.

Use men on maintenance and repair work, bringing the plant and equipment up to a high standard.

Cut the normal week as generally and gradually as possible by departments (down to 50 per cent of the normal week).

Proceed with construction of increased plant facilities previously planned, using our own men as far as possible.

Drop new employees with less than a year of service, single people with no dependents and who are most easily spared first, always with not less than one week's notice.

In accordance with our custom, established for some time, employees should be told whether it is a temporary lay-off due to lack of work, or a permanent lay-off, and in every instance of permanent lay-off the usual compensation, if any, should be paid, depending upon character of work, age and length of service. *New York Times*, June, 20, 1930.

Fewer Hours and More Work Prescribed to Cure Labor Ills

The Commissioner of Labor Statistics says that when we come to think in terms of production instead of in terms of hours of labor, we will cease our opposition to a shorter work day and a shorter work week. If all of the continuous industries would get on a 3-shift day, as some of them have, these industries would employ more men in the human sense even with their improved manufacturing processes. By Ethelbert Stewart. *U. S. Daily*, May 3, 1930.

Program for the Regularization of Employment and the Decrease of Unemployment in Philadelphia

As a means of working out a plan whereby every person in Philadelphia who is honestly seeking may be able to find work that is suited to his capacities under conditions that are reasonable; and that when he has to change from one job to another, it may be possible for him to do so without reducing himself and his family to living conditions that will deteriorate them the Committee appointed to study the problem suggests: the appointment of a standing committee charged with the responsibility of recommending to the Industrial Relations Committee and other essential groups

the best means for inaugurating the most effective workable program for the regularizing of employment and the elimination of socially harmful unemployment. Further this Committee should be charged with the responsibility of suggesting means for carrying out the specific proposals of the committee making this report, namely: 1. Establishment of an institute for the regularization of employment; 2. Improvement of the system of connecting jobs with workers in the Philadelphia district; 3. Prosperity reserve of public works; 4. Study of the relation between vocational guidance in the Public Schools and unemployment; 5. Cooperation with all agencies engaged in researches which will help us to understand the facts. Report of a Sub-Committee to the Industrial Relations Committee of the Philadelphia Chamber of Commerce. 41 pages.

Drafts Plan to Aid Jobless in State

A five-year program for the improvement of the State employment service together with a study of the present operation of the service was submitted recently to Frances Perkins, State Industrial Commissioner, by the Advisory Committee on Employment Problems appointed by Miss Perkins last October. The study, conducted by Miss Mary La Dame, was framed as a report by the committee, headed by F. H. Silcox, chairman.

The report pointed out that the handicaps under which the State Employment Bureau has operated during the last fifteen years have prevented it from making any significant contribution to regularization of employment and to the organization of the labor market.

"During the process of the study of State Employment offices, weaknesses in the management of these offices were brought to the attention of the Industrial Commissioner," the report said. "We are glad to report that steps for the correction of many of these conditions are now under way and that in some instances considerable progress has already been made."

After pointing to the meager salaries paid to employment superintendents, twelve of whom get less than \$2,600 a year and the highest salary being \$3,000, the report stated that under the circumstances the bureau has not been able to command the leadership and abilities required by the work.

Among the recommendations for immediate action were:

"That the Bureau of Employment be under one capable, trained executive directly responsible to the State Industrial Commissioner.

"That systematic clearance among the employment offices be established.

"That a manual of practice be prepared.

"That definite provision be made for organized training of the personnel of the

bureau, particularly new employees, and that \$50,000 be made immediately available to bring about improvements in the bureau."

The proposed five-year program suggested that it be the function of the bureau to assume leadership in improving and co-ordinating the work of public and non-commercial employment agencies, including those maintained by employers and labor unions, and to cooperate with acceptable commercial agencies.

Despite the fact that general employment conditions have not been satisfactory, the number of placements by the State Bureau have measurably increased since January, Miss Perkins told the committee. She thanked the committee for its work and hoped it would be reorganized as a permanent body. *N. Y. Times*, June 20, 1930.

Employment: Classification, Selection, Tests, Turnover

Straightening the Employment Curve

Seasonal production seems to be an unpleasant feature in industry that is with us to stay. The problem of fluctuating labor requirements is beyond the control of the present organization of industry. In this article is described a method of handling employment so as to smooth out the sales curve: two companies were located whose products though not alike, passed through somewhat similar processes; the peak seasons of one coincided with the

valleys of the other. These two exchanged employees to suit their individual needs. In this way a stable year around force was maintained and, despite the erratic sales curve, the actual turnover was reduced to practically nothing.

The writer suggests that the Chamber of Commerce in each industrial center might help solve the problem by acting as a clearing house, arranging for suitable exchanges. By W. B. Lincoln, Jr., *American Machinist*, May 8, 1930, p. 763:1.

Employee Service: Hygiene, Recreation, Lunch Rooms, Stores, Safety

Industrial Hygiene and Accident Prevention in Belgium

About 1890 there was created at Brussels the Industrial Association of Belgium for the prevention of accidents at work. This association still exists, with the same program and the same aims. It has studied all the means, large and small, which can diminish the gravity or the frequency of factory accidents.

Among other things it has suggested better rules, and it has studied methods of

protection of engines and of machines. Above all it has listened to the voice of counsel; it has not been merely general and impersonal, but has called on the help of special engineers.

The association has not limited its influence, its action, and its studies to the question of accidents alone, but has concerned itself generally with all the questions of security and of comfort. *Journal des Association patronales*, May 31, 1930, p. 113:1.

A Cup of Coffee in Business Hours

In almost any other country than our own if we are visiting a business office, we are offered a cup of coffee or tea while engaged in a purely business conversation. The habit of serving coffee or tea to the employees generally is also quite general in business offices outside of the United States. Just recently a number of prominent companies in New York have introduced this pleasant custom. Among them are the Electric Bond and Share Company, the American and Foreign Power Com-

pany and the Munson Steamship Line. On March 17 the institution of afternoon coffee was formally inaugurated by the International General Electric Company, Inc., at its New York offices in the presence of company officials and consuls general of the coffee producing countries of Latin America. The same service was later introduced at Schenectady. The members of the staff are now enjoying each afternoon the refreshment of a cup of coffee brought to the desks as a part of the daily routine. *The Digest*, June, 1930, p. 3:1.

Benefit Systems and Incentives: *Group Insurance, Pensions, Vacations, Profit Sharing, Wage Plans, Suggestions, Stock Ownership***Wage Incentives Are Aiding Safety**

Some kind of fairly set tasks must precede any incentive plan. A task is not fairly set if it involves undue hazard or avoidable fatigue. That is, under good management the job is controlled, just as under mass production the product is improved and controlled. Construction, transportation, ship building and similar kinds of work extend beyond any fixed location and cannot, therefore, be perfectly standardized. It is here then that incentives must be either avoided, or else be specially designed to emphasize the elimination of accidents. The usual incentive for construction work is an arbitrary annual bonus paid out of the net profits for the company as a whole. But under this plan incentive and safety have no direct connection. In the better managed construction companies, however, no bonus is given unless profits are achieved on the particular job, and not every individual necessarily receives a bonus.

A mid-west company has a bonus plan which is virtually an incentive against accidents. For each month or fraction of a month over two weeks a fund of \$10.00 per driver and \$5.00 per helper is set aside and paid annually minus certain deductions.

A large ship-building company sets aside a bonus of \$10,000 each year for safety in

addition to production rewards. Men of course ought to do their best in the cause of accident prevention but as one manager said, "They intend to do so, but they use their brains more effectively when conscious of the possible reward of a hundred or more dollars." By Charles W. Lytle. *American Mutual Magazine*, May, 1930, p. 1:4.

Old Age Law in Massachusetts to Aid 8,000 Persons Annually

Approximately 8,000 aged persons in Massachusetts each year will receive assistance under the provisions of the old age assistance law which has just been signed by Governor Frank G. Allen.

The law is one of the progressive achievements of Governor Allen's welfare administration. Under its generous provisions of adequate assistance for citizens over 70 years of age who are in need, we can expect that aged poor people will be better cared for in Massachusetts than in any other State.

The underlying principles of the measure are: 1, adequate assistance at home; 2, individualized treatment of each case, and 3, local administration with State supervision. It does not set up a pension system. The essential difference between it and the pension bills which have been

rejected lies in the fact that under this bill boards of public welfare are expected to enforce family responsibility for the support of aged persons wherever possible. Administered as a relief measure under the supervision of our department, we estimate that the bill will be of benefit to about 8,000 aged persons each year, and that through social service and assistance it will take care of the needs of the aged people in Massachusetts.

State supervision is accompanied by State's reimbursement of one-third the cost when the aged person has a city or town settlement and the whole cost when the person has no settlement. The total additional cost to the State will be about \$1,250,000 a year and to the cities and towns about \$1,450,000 a year in addition to present expenditures for relief to persons over 70 years of age. *U. S. Daily*, June 5, 1930.

Interest Workers in Profits

The Vice President and General Manager of Richman Brothers Company (clothing manufacturers) describes some of their savings through standardization. More than 90 per cent of the employees own common stock of the company. The operators keep their own piece work records,

upon which payment is made, the only audit being a sampling audit of one department a week. The factory operates 49½ weeks per year, for which 52 weeks' pay is given, there being a one-week vacation in Summer and a Winter holiday from the day before Christmas to the day after New Year's. The supervisors are only responsible for quality—quantity being attained through organizing the work so that the best methods will be applied. By Frank C. Lewman. *Factory and Industrial Management*, June, 1930, p. 1337:3.

Pertinent Facts About Vacations

Results of a questionnaire to which 200 plants replied are tabulated under: minimum vacation with pay; length of employment required for minimum vacation with pay; maximum vacation with pay; and length of employment required for maximum vacation with pay for office workers, foremen, day and piece workers. Vacations for factory workers do not appear to be increasing rapidly though there is some sentiment in favor of the plan. One manufacturer said that vacations afforded an opportunity for men to understudy and prove their merit in bigger jobs. *Factory and Industrial Management*, June, 1930, p. 1358:2.

Training and Education: Schools, Libraries, Apprenticeship, Employee Publications, Bulletin Boards

The Worker Goes to College

The General Electric Company spends nearly half a million dollars annually on its training program and has more than 8,700 students enrolled. The graduates from this "University of General Electric" fill a large proportion of the company's technical positions. A summary of the educational activities of the company is given. There are also a number of educational loan funds and scholarships, some of which are open to employees or their children. By P. M. Wagner. *Factory and Industrial Management*, May, 1930, p. 1071:1.

Apprentice Training—a Growing Need

The need for systematic training as concomitant to the increasing complexity of industry was stressed by the speakers at the recent convention of the American Foundrymen's Association in Cleveland. The experiences of the Falk Corporation, the American Steel Foundries and the Lynn Works of the General Electric Company, with organized apprentice training were discussed.

Two questions were answered by charts prepared from figures compiled by the Industrial Commission of Wisconsin. They were: "Why do some apprentice train-

ing programs fail?" and "Why do many employers fail to adopt systematic apprenticeship?" *The Iron Age*, June 5, 1930, p. 1685:1.

Training by Intention

The Supervisor of Training of the Newport News Shipbuilding & Dry Dock Company describes their apprenticeship plan.

This is a carefully designed program in which the progress of the apprentices is closely observed. A supplementary article on the plan says that hand, head and heart are the three great objectives in training. Descriptions of the various extraneous activities of the plant as well as the school curriculum are given. By G. Guy Via. *American Machinist*, May 1, 1930, p. 725:4; May 8, 1930, p. 773:1½.

Labor Relations: Collective Bargaining, Employee Representation, Arbitration

The Naumkeag Experiment

A case of employer-worker cooperation in a New England Textile Mill. The early history of the mill is traced and the present problem stated by a representative of the management. There follows a presentation of the union point of view, giving

the agreement, and the technician's point of view, giving what joint research asks of management, the union, and what it offers both parties. By J. Foster Smith, John P. O'Connell and Francis Goodell. *Taylor Society Bulletin*, April, 1930, p. 63:17.

Shop Methods: Industrial Engineering, Standardization, Waste, Rate Setting, Time and Motion Study.

Television is Ready for Business

A description of a demonstration of two-way television. Experts at the Bell Telephone Laboratories say that they are still experimenting with it and that at present it appears to be too expensive for extensive use in business. By Art Brown. *Nation's Business*, June, 1930, p. 47:2.

Economical Layout Cut Time

For a small plant it would be difficult to imagine a simpler flow of materials than that organized in the Sun Tube Company,

manufacturers of collapsible tubes to hold tooth paste. Every process, from the feeding of the tin slugs into the hopper to the final capping, printing and enamel finishing has been planned with a view toward the most economical layout, production and handling. A very considerable reduction in the amount of time and labor required for the manufacture of the tubes has been the result. The major processes and layout for them are described in some detail in this article. By Chapin Hoskins. *Materials Handling and Distribution*, June, 1930, p. 44:2.

Research and Experiment

Wastage of Labor in Industry

A description of various tests which are used to facilitate the induction of workers into jobs for which they are best suited. An experiment was carried out in one factory in which two groups were taken on—one trained by the firm's ordinary

methods and one by means of methods specially devised. At the end of four weeks the latter group was 22 per cent ahead of the former.

The following will show where research and experiment has been of value in reducing labor wastage. In one factory where

a fairly skilled operation had to be carried out, it was noticed that a number of workers would improve quite quickly for the first two or three days, and then settle down to a certain rate and seem incapable of getting beyond that rate. They were consequently discharged as unfit. Now, in a number of learning operations the psychologist has found that the learner begins quickly at first and then there occurs a flattening out of the learning curve. After that plateau, or flattened period, the learner will begin to improve again and go up quickly. Those plateaux have been known to psychologists for some time, and it occurred to an investigator to see whether there might not be a flattening curve in this particular job, so he persuaded the firm to keep on their workers two or three weeks longer, and it was subsequently found that the stationary period was followed by a sudden jump, with daily improvement. By extending the learning period therefore it was possible to retain people who were quite efficient given suffi-

cient time to overcome this period. The previous waste in training was now saved to the firm, and labor conditions were considerably eased. By Dr. G. H. Miles. *Report of Business Research and Management Association*, Dec. 10, 1929, p. 22:8.

Industrial Psychology and Its Development in Switzerland

The origin and growth of industrial psychology in Switzerland offers to other countries a splendid example of cooperation in the development and use of scientific aids to occupational adjustment.

The program of the Swiss Institutes includes: selection, vocational guidance, by means of psychological diagnosis; apprenticeship and training; the psychological phase of the scientific management of labor; and the psychological aspects of human relations and leadership. By Walter J. Heller. *The Personnel Journal*, April, 1930, p. 435:7.

MARKETING MANAGEMENT

The Job of the Consumption Engineer

Consumptionism is not a new thing. It is merely a new name. It is something more than business courtesy, pleasing the consumer, your money back if not satisfied. Wants and desires that are not yet realized, but which are foreshadowed by the trends of today must be anticipated. We have already learned to engineer production. Now consumption engineering is the big job of the future. As an instance there is a great opportunity awaiting the automobile industry. We have not yet reached the saturation point in motor cars. The slowing up of sales is not due to inability to buy, but to congestion. Los Angeles has ten times more cars per capita than New York City, because of more room. But better than all, the consumption engineer will see to it that the consumer is financially able to pay for goods

that he wants! It is as necessary to provide the consumers with money as with goods. High wages is a sound device for this purpose.

Consumption engineering must see to it that we use up the kind of goods we now merely use. Its function does not end until we consume all we make. By Ernest Elmo Calkins. *Advertising & Selling*, May 28, 1930, p. 28:2.

Research as Applied to Sales Forecasting

The necessity for forecasting is established and four charts illustrate: sales over a period of 15 years in quarters; the same curve divided into three component parts—the general trend of sales, a seasonal variation and a cyclical variation; American conditions from 1903-1913 in respect to speculation, business and money; and the

same conditions from 1919 to 1929. The latter was to establish post-war tendencies. With such aids a more enlightened conclusion may be reached. An endeavor must be made to find some general index external to the business which, when its seasonal variations and secular trend are removed, will be found to move in correlation with the sales curve of the business, and if possible, a little in advance of it. Judgment is necessary to success, but this author pleads for instructed judgment, for inspiration based upon perspiration. By W. Wallace. *Report of Business Research and Management Association*, Jan. 16, 1930, p. 30:10.

This Plant Makes No Profit Until the Distributor Does

A merchandising plan that is unique is that of the relationship between J. F. McElwain Company, shoe manufacturers, and the Melville Shoe Corporation, distributors of shoes. It is so far in advance of the usual one of conflict between two branches of industry that it eliminates all competition. The key to this situation is the recognition that selling comes before manufacturing. The distributor is the active, vital factor in the equation, providing those

sales which are necessary in order that manufacturing economies may be effected. In this age of volume distribution the manufacturer has too often regarded himself as the mainspring of modern merchandising. But the retailer actually is because he is in a position where he can understand the needs of the ultimate consumer. An interview by Charles G. Muller with Ward Melville. *Printers' Ink*, May 15, 1930, p. 17:4.

Dynamic Sales Control

The first of three charts which are shown records results by months for several years and presents them in such a way as to suggest future monthly performance. The second chart gives the continuous record of what is planned and what is achieved. This may be laid out according to districts, salesmen, or distributing agencies. The third chart presents in bar form cumulative records of achievement for various months of the year for several years. These charts, tried and proved in several manufacturing firms, assist materially in cost reduction in the field of distribution. By Leonard Kuvin. *System*, May, 1930, p. 415:2.

Sales Promotion: Letters, House Organs, Advertising

Building Sales Through the House Organ

The Wohl Shoe Co. is glad to accept contributions for its house organ, *The Footprint*, from managers and salesmen, but the material must be along helpful, sales promotional lines, rather than personal ones. If personalities are used they must refer to humorous incidents which can be enjoyed by everyone. However, there is no joke column, because it has been found that the ordinary salesman is apt to turn first to that and neglect the sales side. It costs the company approximately 8 cents a month, per person, to put the two copies which are issued in that time into the hands of their people. The

company believes that the distribution of their paper promotes not only a spirit of interest and cooperation but that it also produces enough in actual, direct sales results to pay for itself and to make it profit bearing for the company. By W. Roy Ashton. *Chain Store Age*, June, 1930, p. 42:2.

The Measurement of Advertising Effect

If a certain kind of advertising is effective, the resulting sales should bear some degree of relationship to the amounts used. A view may be obtained of the manner in which successive increases of advertising intensity affect sales, which may be improved by separating the effect

of advertising from the effects of other conditions. Some economists are inclined to place advertising in the category of economic waste with the duplication of milk wagon routes, and the like. The proper solution for any waste in advertising is for the progressive concern to so plan and control its advertising that the effort will always be placed where there are possibilities for a compensatory return and not employ it anywhere in greater amounts than will be balanced by the results obtained. By Donald R. G. Cowan, Bureau of Research and Education, Advertising Federation of America, 1930 Series, Numbers 2 & 3, p. 1:1.

To Bribe or Not to Bribe?

Commercial bribery, either direct or indirect, is repellent to every reputable business man, yet secret rebates, lavish presents, extravagant entertainment still persist as selling tactics of concerns otherwise modern and progressive. Some manufacturers face a real dilemma—whether they shall close their eyes to bribery in one form or another, or whether they shall take a militant stand against it. The manufacturer who does renounce "inducements" to buyers, generally suffers for his devotion to principle, for bribery is often a cheap means of making sure of orders, whether the price scale is higher or not. The real support of a company's policy should come from the owners and executives of the firms who

are its customers; they should be warned that violations of an ethical code among their salesmen will be reported to all members of their trade association. By Pyrodes Querpo. *The Rotarian*, May, 1930, p. 15:4.

Better Selling of Industrial Lighting Equipment

The following eleven steps have been found of value in instituting a better selling program on industrial lighting fixtures. Each point is considered in detail: 1. Making sales effort on industrial lighting equipment a stated policy of the management. 2. Scheduling periods of intensified sales activity on industrial lighting equipment. 3. Training of the sales organization in information and sales arguments necessary to sell industrial lighting. 4. Continuous emphasis upon re-lighting. 5. Systematic follow-up of new industrial and semi-industrial construction. 6. Development of electrical contractors into lighting specialists. 7. Co-operation with the lighting service departments of central stations. 8. Active support of the electrical league. 9. Active introduction of new and improved fixtures. 10. A sustained program of promotional activities. 11. Maintaining contact with national lighting activities for the purpose of keeping salesmen and contractors informed. *Report of the Better Selling Section of the Lamps and Lighting Division, National Electrical Wholesalers Association*, May 26, 1930, 23 pages.

Buying, Receiving, Storing, Shipping

Why We Buy from the Industrial Distributor

It is the purchasing policy of the electric railway systems serving Chicago and the surrounding territory to buy certain maintenance supplies from established mill supply houses. At present approximately 35,000 orders are issued annually from the offices of these electric railway companies, and purchasing economy necessitates a recognition of the savings which distributors can make. There is no discrimination

made between supply houses, the small house having an equal opportunity with the large one. By E. E. Kretschmer. *Mill Supplies*, April, 1930, p. 30:2.

Foresight in Buying

To buy with foresight takes these four steps: 1. Consult unit sales records to learn trend of sales of seasonal merchandise for the past three or four years and non-seasonal merchandise during the past twelve months. 2. Consult reports on

general and local economic conditions; activities of competitors; the sales staff; buyers for other departments; trade journals. 3. Rate the more important resources.

4. Prepare a buying plan in writing. Report 5 of the *Bigelow-Sanford Survey of Rug and Carpet Merchandising*. 28 pages.

Salesmen: Selection, Training, Compensation

Conception of Human Element Viewed as Vital in Salesmanship

Many concerns, although realizing the importance of salesmen training programs, are handicapped by defects of method, according to a recent statement of Earl W. Barnhart, of the Federal Board for Vocational Education.

Manuals, lectures and conferences are the various ways of imparting knowledge of salesmanship technique to the sales force. Mr. Barnhart describes the weaknesses as well as the advantages of each. He says that the territorial phase of salesmanship technique is exploited at the expense of the social side. All persons are treated as alike and apparently are expected to be deal with alike.

One of the fundamental needs of manufacturers in the United States at the present time, he concludes, is to emphasize the teaching ability of local managers so that they can act in the capacity of generals directing their forces. In so doing they should make an effective analysis of each salesman's problems. *U. S. Daily*, June 9, 1930, page 1.

Salesmanship

Why More Science is Needed in Automobile Selling

Automobile sales executives are coming to realize as never before the need for making merchandising more nearly a science. Production has now been perfected to an extent that leaves the way open for the use of some real science in merchandising. However, Mr. R. E. Chamberlain, general sales manager of the Packard Motor Car Company, does not think this should be interpreted as meaning that selling has suddenly become

Point-of-Contact Training Boosts Chrysler Sales

The sales training course of the Chrysler Sales Corporation is a result of five months in gathering actual experience in the field, with the co-operation of the corporation training service of LaSalle Extension University. There are ten textbooks in the course. Volume one begins with the salesman himself. The second volume presents examples of people who have bought cars and analyzes their reasons for buying them. The principles of buying are emphasized in volume three. A definite sales presentation is given in volume four. Prospects, and so forth, are covered in volume five; and volume six tells exactly how to give a demonstration. Volume seven tells how to sell the whole car as a unit. The vital subject of trade-ins is treated in the eighth volume. How to close the sales in a simple, logical way is covered in volume nine. Volume ten is a general resumé, with some additional matter on organization of one's work, saving of time, and routine practice. By J. W. Frazer. *Sales Management*, May 3, 1930, p. 212.2.

more difficult, or that the saturation point is near; rather the approach to a higher grade of efficiency in selling has been a process of natural evolution. Principles are being evolved which eventually will be as dependable as engineering principles. This view is also endorsed by L. G. Peed, general sales manager of the De Soto Motor Corporation. The idea of having a scientific formula for automobile selling does not make any great appeal to C. H. Bliss, general sales manager of the Nash Motors Company. He believes

there are already plenty of existing selling fundamentals that can be resultfully utilized. The Nash organization is not putting into effect any innovations, but strenuous efforts are being made to help

the members of the selling personnel in the field to conduct their affairs in an intelligent manner along the lines of accepted commercial principles. By R. W. Clarke, *Printers' Ink*, Apr. 17, 1929, p. 136:3.

Industrial Marketing

Continuous Control of Sales Effort Shows Sources of Waste Motion

The details of the sales plan of the Alemite Corporation is described in some detail. The first step in cultivating the industrial market for high pressure lubrication was to redesign the equipment. This done, the second step was the development of a sales story with which to introduce this new equipment to the industrial buyer. The third step dealt with the markets. It

consisted of obtaining the names of larger industrial plants in all territories and telling the salesmen to call upon them. However, it was found that the men were not dividing their time economically. The fourth step in the development of the present sales plan, therefore, was to study the activities of the salesmen as shown by the sales control records and to eliminate waste efforts at this point. By Charles A. Fine, *Class & Industrial Marketing*, May, 1930, p. 27:4.

Retailing

Will Men Wear Standard Styles?

Urged by certain retail executives, Hart Schaffner & Marx will experiment in a limited way with group purchases of men's furnishings in a number of stores in which their clothing is the dominant line. Proponents of group buying point out that large retail outlets such as Wallach Brothers and Baskin, Inc., exclusive distributors controlled by Hart Schaffner & Marx, are able to hire buyers of haberdashery, etc., whose skill and experience surpass those of similar buyers for single stores in smaller cities. They think this skill and experience might well be made available to other company retail outlets. Style itself is in the process of being standardized on a national scale and a higher plane, some observers say. *The Business Week*, June 18, 1930, p. 13.

Chain-Store Development in Great Britain

There are in England various types of organization that may be considered as chain systems, in that they operate through

numerous branches. The multiple shops correspond in general to the chain stores as understood by us. Distinct from these are the cooperative societies. Finally, there are the department-store groups. The attitude of the public toward multiple-shops is generally favorable. Opinions vary as to their ultimate outcome. These shops favor the customers who purchase their goods for cash and who carry their goods away with them. In a general sense they do not receive family orders covering a variety of articles. Both the multiple shops and the independent stores will probably continue to operate side by side. By Ralph S. Charles, *Commerce Reports*, May 5, 1930, p. 267:4.

Self-Analysis Raises Staff Efficiency

The general manager of Blue Kitchens, Inc., works on the theory that the best results can be obtained from their employees by getting them to think about their duties. To this end they have evolved three major methods of raising the morale of the organization. These include a self-

analysis questionnaire and the appointment of a harmony delegate in every store. The third method will be discussed in a later issue. The questionnaire lists 14 qualities essential to service and there is a rating schedule of 10 grades. The effect is amazing. Every girl remembers the grades she gave herself as well as those she received from the manager, and strives to improve herself in her weak points. This method has not only raised the standard of service, but has heightened the morale of the organization.

This morale is further maintained through the system of harmony delegates who are elected by the girls of the stores from among themselves. Their personal grievances as well as customers' objections are laid before them. They in turn present all complaints at the end of the day to the manager. Meetings of the harmony delegates are held at a centrally located store together with members of the

headquarters staff. Various points of service are discussed and policies of the management are explained. By M. A. Rosenfeld. *Chain Store Age*, June, 1930, p. 33:4.

Distribution Census Foreseen as Aid to Chain and Independent Merchants

From these census figures it will be possible to make many comparisons which will aid both chain and independent merchants—for example, sales per capita in a particular line compared with other cities, potential customers, size of store, number and wages of employees, proportion of business done on credit, amount of returned goods, value of stock carried, expenses and various other items. The census will supply data indicating the trend toward specialization as against general merchandising. The part in merchandising being played by large, medium and small concerns will also be developed. By John Guernsey. *U. S. Daily*, May 13, 1930.

Wholesaling

Dry Goods Wholesalers to Check Up on Mills

The Wholesale Dry Goods Institute is setting up a card rating system on mill selling policies in order to find out what direct competition with mills wholesalers will meet. Each manufacturer will have his selling policies watched in the same way that credit information is cleared. His

own statements will be recorded and then checked by interchange of information by the wholesalers themselves. Through the central file the wholesalers will know which producers wish to make use of the distribution facilities of the wholesaler, and which are competing directly with the wholesaler. *The Business Week*, June 18, 1930, p. 14.

Books Received

Economic Dictionary. German-English—Part Two. By Dr. Hereward T. Price.

Julius Springer, Berlin, 1929. 676 pages.

Supplementary Readings in Economics.

By Ralph C. Epstein. Scribner's, New York, 1929. 455 pages.

The Movement for a Sounder Money.

By Owen D. Young, Norman Lombard, Frederic A. Delano, Sir Josiah C. Stamp, Henri Fuss, Carl Snyder. The Stable Money Association, New York, 1929. 54 pages.

Foundrymen's Handbook. Penton Publishing Co., Cleveland, 1929. Second Edition. 574 pages.

Economics and Ethics. By J. A. Hobson. D. C. Heath & Company, New York, 1929. 489 pages.

Auditing. By Robert H. Montgomery. American Technical Society, Chicago, 1929. 221 pages.

A History of Financial Speculation. By R. H. Mottram, Little, Brown, and Company, Boston, 1929. 317 pages. \$4.00.

The A B C of Accounting. By Stanley Edwin Howard. Princeton University Press, Princeton, N. J., 1929. 302 pages. \$3.00.

The Mystery of the Trade Depression. By Frederic E. Holsinger. P. S. King & Son, Limited, London, 1929. 360 pages. 7s, 6d.

The Problem of Weak Railroads. By James M. Herring. University of Pennsylvania Press, Philadelphia, 1929. 176 pages. \$3.00.

Small Towns (An Estimate of Their Trade and Culture). By Walter Burr. Macmillan Company, New York, 1929. 267 pages. \$2.50.

Survey of Books for Executives

Merchandising Through Mergers. By John Allen Murphy. Harper & Brothers, New York, 1930. 179 pages. \$3.00.

An abundance of interesting references to a large number of mergers makes this book very easy to read. The rather poor organization of the material, however, somewhat detracts from whatever value it may have as an informative piece of work. This shortcoming may be partially attributed to the fact that certain portions of the contents have been adapted from articles previously published in "Sales Management" although even the organization of certain chapters is not well balanced. No attempt is made to confine merger to the technical sense of the term.

Some fourteen reasons for merging may be culled from the first six chapters. They are:

1. to reduce competition
2. to obtain new production facilities
3. to control the source of supply of necessary materials
4. to eliminate superfluous properties such as warehouses, branch offices, etc.
5. to build up sales volume, it being assumed that the bigger the volume the smaller will be the cost of selling
6. to obtain similar products in a different price class
7. to obtain certain brands which, because of advertising, have a large amount of good will and have proven to be consistent money makers
8. to acquire a complete line of products to be sold to the same buyers
9. to gain a sufficient number of outlets in a local territory to warrant chain distribution methods
10. to obtain the services of an individual or a group of men
11. to obtain control of a process
12. to perpetuate a business and at the same time to obtain the maximum value for the property
13. to secure additional capital for developing a business along new lines
14. to provide new sources for the investment of rich men's capital.

"It is no exaggeration to say that perhaps a majority of all mergers seek no justification other than that they are pursuing nature's strongest instinct: self-preservation" says the author. The rapid growth of tremendous merchandising units has made it necessary for manufacturers to seek to build their organizations to a size which may be comparable with that of their customers. Banks have been compelled to combine in order to serve satisfactorily the large corporation. Freight rates and products which require factory service have made mergers imperative for survival in many instances.

It is somewhat surprising that the first half of the book, which is confined to a discussion of reasons for merging, does not give more attention to the purely selling advantages. The influence of directors of large manufacturing organizations on railroad boards from the standpoint of

swinging tonnage to the carriers is given brief mention. But there are many other contacts possible which tend to multiply sales for large corporations.

That there are factors unfavorable to the large organization is clearly brought out in the latter half of the book. No organization can obtain control of all ideas. Fashions are often set by the small company and specialists offer keen competition to the manufacturer of several lines. Mass production may present serious obstacles to the large enterprise in adjusting itself to rapidly changing conditions. The small manufacturer is much closer to his market than the large one although it may be said that field laboratories and sales managers' reports are attempting to remedy this for the large organization. But perhaps more important still is the fact that decisions do not have to run the gauntlet of committees in small concerns.

Despite the scarcity of definite information on the results of mergers there seems to be evidence that the probability of merger success is not disproportionate to the probability of individual success. Mr. Murphy points out some conspicuous successes built from initial small beginnings without resource to combinations.

Some excellent trade development and research work accomplished by trade associations is reviewed in the last chapter.

This book will furnish a pleasant evening for any one who wishes to read a general discussion of mergers by a writer whose experience as an associate editor of *Printers Ink* and as a marketing counselor has supplied him with a large amount of engaging material.

RICHARD B. MAYER,
*American Radiator & Standard
Sanitary Corporation.*

Meeting the Bear Market. By Glenn G. Munn. Harper & Brothers, New York, 1930. 276 pages. \$2.50.

The enormous growth of interest in the security markets during the past five years concurrently with the development of a marked preference by individual investors

for preferred and common stocks has undoubtedly widened the sales field for books of this kind. The author indicates in his preface that he is aware of a substantial body of investors who perhaps lacking the detailed technical knowledge of the mechanics of the stock exchanges and the underlying problems of investment banking are nevertheless curiously alert to enlarge their grasp of miscellaneous investment information.

The subject matter of this volume is divided into three main subdivisions: First, the bull market of 1927-29, with an explanation of the factors provoking and enlarging it; second, the cause of the stock market crisis of 1929 and the significant indicia of moment to the investor to be gleaned therefrom; third, a miscellany of advice and information concerning stock market technique. There is no bibliography and no index.

This book is not a technical book; it is written for the man in the street. The style and arrangement of material is journalistic. Frequently, the author by way of summary arranges his points of argument or explanation in numerical sequence. Occasionally there are hackneyed platitudes. With reference to the field of readers it is designed to reach and be of use, it fulfills its purpose fairly well.

FRANK PARKER, *Professor of Finance,
Wharton School of Finance & Commerce,
University of Pennsylvania.*

Retailing Tomorrow. By John Guernsey. Textile Publishing Co., New York, 1929. 228 pages. \$5.00.

Appearing first as a series of articles in the *Dry Goods Economist*, the chapters of this book present a penetrating analysis of current trends in the organization of retailing. In the introduction, Mr. Guernsey explains his purpose this way: ". . . always there will be exceptional stores operated by exceptional merchants, whose only present concern about Tomorrow is what to do with the profits. But on the day after tomorrow, when those exceptional merchants are no longer at the helm,

what of the institutions they have built? That is the subject of this book."

Writing in a freely flowing, colloquial style (for instance, "Is Lew Hahn a second Moses or is he all wet?") the author studies the independent and his status in relation to the chains. The success of the chains where they have been successful, their troubles where they have fallen short of success, and the lessons which the independents can learn from the chains, constitute the main substance of the book.

Whether or not the reader accepts with finality the conclusions and the conjectures of the author, he is grateful to find no weasel-words in the succession of predictions. "Retailing Tomorrow" contains many flat-footed forecasts. On the basis of the analysis they seem for the most part reasonable guesses, and it will be interesting to put them away where they can rise through a tickler system to be read again five years from now.

The more important conclusions to which Mr. Guernsey arrives may be summarized in his own words as follows:

Typical Department Store Must Operate in Three Divisions

"We pointed out earlier why we conclude that the typical department store tomorrow will be organized to operate in three divisions. These three divisions are: a basement store with restricted service, carrying chain merchandise sold entirely on price appeal, with 22 per cent expense and about 30 per cent initial mark-up; second, merchandise upstairs sold primarily on price appeal but with full service, which will justify the expense of about 25 per cent and an initial mark-up of about 33 per cent; and lastly, habit merchandise and fashion merchandise of discriminating appeal, requiring a highly expert merchandising job and a sophisticated promotional and selling job, which part of the business will require about 33 per cent expense and will provide sufficient mark-up to cover that and a profit since it will not be subject to direct price competition.

"The lone independent will be limited to this third classification because he will be unable to obtain average merchandise, which is subject to direct price competition, on a basis of equality with his competitors. Such limitation need not apply however, to the independent who associates with independents of similar type in other cities, to buy the low-end and average merchandise on a basis of substantial equality and to jointly employ the services of specialists in research and promotion which the individual store of the group cannot afford.

A Few Exceptional Stores Will Survive as Individuals, But Independents Will Associate

"From all the evidence we are convinced that well-managed independent stores which associate with other similar stores in groups, and supply themselves with the central facilities outlined above, starting slowly as research groups and expanding only after a group consciousness has developed, will continue to hold their own against any competition which now exists. Operated and merchandised in the three distinct divisions described, the stores will find it profitable and desirable to open smaller specialized branch stores to cover their trading area, and thereby will increase their volume materially without increasing their expenses in proportion. There will be a few lone independents, and there will be always a few exceptional stores which conform to no classification, by reason of temporary local advantages, or equally temporary exceptional management.

"But most stores of the future will be in one of three classes: units of a chain, stores of an ownership group, or independents associated in groups of similar stores, with mutually owned central service organizations. Of the three, the evidence indicates conclusively that most of the present old-line department stores will become associated groups."

DAVID R. CRAIG, *Director,
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DAVID R. CRAIG, *Director,
Research Bureau for Retail Training,
University of Pittsburgh.*

Pensions in Modern Industry. By Arthur David Cloud. Hawkins & Loomis Company, Chicago, 1930. 531 pages. \$10.00.

The most comprehensive and ambitious book thus far published on the subject of industrial pensions is the work of a lawyer-engineer whose practical experience with pension plans was gained mainly through his services to the Chicago, Milwaukee & St. Paul Railroad, in connection with a revision and reorganization of its retirement system. Stimulated by this experience, Mr. Cloud since 1923 has made an intensive study of the legal, economic and actuarial aspects of the superannuation problem. The bulky volume which came from the press this year is the tangible result of this study.

To the pension student already familiar with the existing literature, perhaps the most impressive contribution made by Mr. Cloud's book is the exhaustive research which the author has made into the legal aspects of the subject. Apparently he has gone through the records of every court case having any bearing upon industrial pensions, and from decisions and pleadings he has collected what is doubtless the most complete published analysis of pension law.

In his fundamental philosophy of pensions, Mr. Cloud follows in part the theories that have gained ascendancy in the recent years of active pension discussion. He rejects the theory of the "deferred wage," and accepts the current notion that industrial pensions are paid mainly because they are advantageous to the employer. He declines, however, to follow the reasoning of those who hold that a pension is not "earned"; in fact, he insists that every industrial pension is paid as a consideration for extra service not covered under the employment contract, since the directors of a corporation have no legal authority to give away the stockholders' money without receiving some consideration in return. The extra service, however, need not involve anything more than continuity in the employment relation.

This factor of continuity is made much

of throughout Mr. Cloud's argument. It is, in fact, made the basis for a claim that a pension, by promoting labor stability and reducing turnover, may save as much as it costs. At this point the author's argument becomes complex and somewhat tenuous. A writer inclined to be critical might be tempted to question whether Mr. Cloud has not over-estimated both the importance of labor stability and the influence of the industrial pension in reducing turnover among employees during the years in which their services are the most valuable. Mr. Cloud himself, however, is entirely satisfied with his reasoning. "This," he writes, "puts the pension in a strong light as pay for continuity of service. The pension is exactly that. . . . The significance of this discussion, however, is that the employer can make his pension system pay for itself in terms of the cost of turnover."

Naturally the author does not depend wholly upon this cost of turnover theory for the justification of industrial pensions. In common with most recent writers on the subject, he emphasizes the value of the pension in enabling an employer, without injustice or adverse public opinion, to purge the payroll of workers who have grown old in the service and whose continued retention on the active payroll is uneconomical.

Having rejected, for reasons already outlined, the idea that an industrial pension can be a gratuity, Mr. Cloud sets about to find what it really is. He concludes that if the pension is informal and is merely paid to old employees on the basis of personal needs, it is an "allowance." This allowance definition also applies to the initial accrued liability existing when an informal plan is adopted, since up to that time there has been no promise upon which expectation of retirement annuities could be based. After a pension plan has been formally adopted, however, annuities are definitely promised as the reward of continuity of service; they then cease to be allowances and approach nearer the nature of bonuses.

At this point the author naturally en-

counters the question as to whether a non-contributory pension plan can be discontinued or reduced in liberality at the option of the employer. He fails to answer this question conclusively, for the very good reason that it has never been fully tested in the courts. His tentative conclusion appears to be that a "disclaimer clause" is effective if it is strong enough to make it clear to employees that nothing is promised and that if they meet the pension requirements they may or may not receive annuities. In the lack of this unqualified warning, he thinks the employer who adopts a formal pension system is "very likely to discover in spite of his disclaimer clause of liability and his attempted reservation of perpetually 'discretionary' control, that the employee's fulfillment of the announced conditions of eligibility has resulted in a contract—of which, as a matter of law, he, the employer, sustains the paying end."

Several chapters of the book are taken up with the development of a system of computing pension liabilities. Analysis and criticism of this feature may properly be left to the actuaries. It is sufficient to say here that the author has departed in some respects from conventional methods and has devised a system of funding "on the quantity basis" which he defends as being more logical and less expensive than the more usual plan of building up an industrial pension reserve for each employee.

E. S. COWDRICK.

Corporate Earning Power. By William L. Crum. Stanford University Press, Standford University, Cal., 1929. 342 pages. \$5.00.

There are many things that most of us, perhaps, would like to do, or would feel that we ought to do, before picking up some three hundred and forty pages of analysis and interpretation of government statistics relating to corporate earning power. But when we examine Dr. Crum's book and sit in the crow's nest of Dr. Hotchkiss' introduction to it, we catch sight of a major pioneering

effort with which business men should be familiar. It is profitable to study the perspective of Corporate Earning Power; check some of our personal observations, and become better acquainted with current economics in the raw. It is also profitable to see something of what is being done at universities toward the development of basic data needed in the conduct of business.

An occasional dose of the mental exercise that books of this kind give, is not too hard to take. In fact, after proceeding through sixty pages or so of Corporate Earning Power, and being led by footnotes to dip into later chapters, we find that it has become agreeably interesting. The subject matter—text, charts and tables—is surprisingly easy to follow and understand. To watch the movement of Dr. Crum's thought, its keenness, reasonableness and integrity, is an increasing pleasure. He dissects, compares and points out with a breadth of grasp, analytical skill and clarity, which, with his earnestness to protect the reader from false assumption, give his book attractiveness as well as merit.

The subject matter first takes up net income after taxes in relation to gross income, and traces the tendency of the two items over eleven years, 1916 to 1926. The ups and downs of a profit ratio, computed by dividing gross income into the net after taxes, are presented for twelve years, the year 1927 being added on the basis of preliminary data. The discussion pursues, separately, the showing made by business as a whole, by each of eight general divisions of business, and by each of ten manufacturing groups. The divisions are designated manufacture, trade, public utilities, finance, mining, service, construction and agriculture. The manufacturing groups comprise metals, food products, chemicals, textiles, lumber, printing and publishing, stone, etc., leather, paper, rubber.

Based as it is on the statistical material which the United States Treasury compiles from tax returns and publishes an-

nually, the book deals with a business picture that in 1926 included about 450,000 corporations.

The twelve-year "time study" of the margin of profit is followed by an examination of the profit ratios of groups in divisions other than manufacture and of manufacturing subgroups, for the isolated years, 1916 and 1926. It is stated that, in these cases, computation of the continuous series of annual ratios is precluded by the unavailability of data.

Chapter VII introduces the subject of percentage return on capital, as shown by business as a whole and by each of the general divisions and manufacturing groups. In this and the three chapters following, the return on capital for 1926 is discussed in comparison with the 1926 profit ratios, and analyses are presented of the relative profitability of each division and group. To the limited extent that the statistics permit, a study is made of the profitability of manufacturing subgroups and groups in other divisions.

Chapter XI has to do with differences in profit ratios by regions; XII, with ratios of current assets to current liabilities, net worth to total assets, and long-term debt to fixed assets; XIII, fixed charges; XIV, corporations returning net income in relation to the total number filing returns. Chapter XV is a technical statistical study of the amount of net income; and finally XVI, a 17-page summary of the book.

Dr. Crum's percentage return on capital, his "earnings ratio," is the quotient of net income after taxes divided by *total assets*. On the surface, this might appear to be an unsatisfactory measure of earning power. But I think the attentive reader will come to agree with Dr. Crum, ". . . it does not seem that the imperfect comparability of numerator and denominator seriously injures the ratio as a measure of the *relative* profitability of lines of industry." Also—" . . . the selection actually to be made is controlled by the available data."

In his preface, the author points out, "As this volume indicates some of the inadequacies in the data as now tabulated and

published by the Treasury, it may furnish an incentive to the fuller and more serviceable reporting of corporation statistics to the end that later investigations shall rest upon data more readily adapted to the uses of the analytical statistician." Further, in Chapter XVI, ". . . amplifications which might be made in the tabulations . . . would be of great help . . . would provide the basis for investigations of vast importance to economic theory and business practice. . . . Once it is apparent that the results to be obtained are of sufficient importance, the cost in money and in time should not be a decisive obstacle to action."

However, despite limitations of basic material, *Corporate Earning Power* brings to light a large body of facts and reasonable inferences. Some, of course, are not unexpected. Others are very illuminating. And even though they are presented as "the findings of a first investigation, not better than tentative and suggestive," they are important.

The book should be of particular interest to business men, economists, investment advisors, statisticians. Not only has it set forth a helpful study of available statistics, and a competent method of statistical analysis and interpretation, but it has designated needed data that were unavailable and indicated how they could be used.

F. H. FIGGSY,
Ernst & Ernst.

Business Reports. By Alta Gwinn Saunders and Chester Reed Anderson. McGraw-Hill Book Co., New York, 1929. 411 pages. \$3.50.

In "Business Reports" we have a frank and true text book on the art of constructive business report writing. Accepting it as such the reader, be he financier, executive, business engineer or student has at his command a logical and complete treatise on a much mooted and little defined subject.

Too many volumes of this generation on business practice deal with pet theories and trick schemes. Too few set forth the fundamentals. The authors have no bones

to pick nor do they in any way indicate miraculous results from the use of reports. Rather, they stick to their last. They have brought out the fundamentals and defined with painstaking detail and accuracy the source, elements and structure of their subject. In fact every detail of report writing from the most elementary ramifications to the reader—reaction has been exhausted. Even the pitfalls usually experienced in report writing have been enumerated.

It appears that the marketing, advertising and selling side of the subject has been favored. However, the other functions of the business including the engineering angle have been briefly but comprehensively treated. Had the writers properly covered the latter functions another volume of this work would have been necessary. Those interested in the selling side of business will find this book particularly interesting and instructive.

Individuals having the education, experience and ability to examine and advise on business problems seldom have the faculty of intelligently, clearly and convincingly presenting their findings and conclusions in writing. The same is true of many organizations whose sole purpose it is to report on business problems. The reason is not because the reporter lacks the literary talent but rather that he considers the tabulation of his subject of prime importance and has failed to remember that his object is truthfully to inform and convince the reader. The point of reader and subject consideration is nicely stressed in this book.

Of course good report writers are made and not born. Too few recognize this fact. The reporting of findings and conclusions has been considered as secondary and not as a part of general training by those following business and technical pursuits. In most instances there is a definite self-resistance to putting advice and the results of one's efforts in writing. This may harken back to resistances developed in grammar school days in some instances but in all probability the cause may be

attributed to the lack of satisfactory text books on the subject.

The neophyte believes that a report must be voluminous to be impressive. He pads his report with explanations, words, detail, exhibits, figures, charts, etc.—in fact he exhausts every topic irrespective of its importance and in turn generally exhausts the reader. The experienced writer who knows his subject and reader literally studs his report with pertinent facts, comments and illustrations sufficiently to inform his readers clearly, maintain and stimulate interest and incite action. A report must do just this in the fewest words possible or it has failed in its purpose.

Those in the business world are prone to view the business efforts of professors as apt to be more theoretical than practical. It is gratifying in the instance of "Business Reports" to note the authors' practical and broad understanding and treatment of the subject.

CHARLES H. HATCH,
Vice-President,
Miller, Franklin & Company, Inc.

Oil and Peace. By L. Vernon Gibbs.
Parker, Stone & Baird Co., Los Angeles,
1929. 204 pages.

Mr. Gibbs believes that the ultimate cause of future wars is the stake for oil. The book is an historical review with many quotations from first-hand sources of the importance of a world-wide petroleum industry in international relations, particularly pertaining to the issue between Great Britain and the United States. The book traces in detail the rise of the Royal Dutch-Shell Petroleum Company and the international complications which, according to the author, are involved in the development of its program throughout the world.

A large section of the book is devoted to tracing the history of the Standard Oil Company prior to the dissolution suit in 1912, and makes a plea for cooperation without government ownership in order to fight against world-wide competition.

The last paragraph of the book rather completely sums it up as follows:

"Oil is the one indispensable factor in the modern industrial war. The conquest of the air is the outgrowth of the use of gasoline in the internal combustion engine. In fact, modern industry and war cannot be carried on without oil. It follows that if one nation, by state ownership, controls the oil of commerce and the oil of war, that nation can demand tribute from all peoples, can set the prices of all commodities, and such control predetermines the use of modern engines of war to preserve that nation's military and commercial supremacy."

The book should be read by all those interested in the expansion of the American petroleum industry, whether they are engaged in the employ of any of our leading companies or as an outside observer.

CHARLES M. MILLS,
*Assistant to the President,
The Standard Oil Company.
(An Ohio Corporation)*

Where Fire Insurance Leaves Off. By Clarence T. Hubbard. F. S. Crofts & Co., New York, 1930. 255 pages. \$2.25.

The author of this very interesting publication acquaints the business man with the fact that, contrary to the belief of many, the standard form of fire insurance policy does not afford complete protection against loss. He appropriately opens his discussion with a chapter explaining what the fire policy does not do and in succeeding chapters treats of the various forms of supplemental insurance such as tornado and windstorm, explosion, earthquake, business interruption, property damage from falling aircraft, etc.

Mr. Hubbard has thoroughly covered the subject of insurance of fixed property and his theme is based on the fact that in the absence of a standard form of all risk coverage it is necessary to resort to casualty and other contracts. The need for other than fire insurance depends of course

on the locality and the inherent hazards of the property. This is illustrated in the application of earthquake, tornado and explosion insurance. The home owner in the neighborhood of a flying school will recognize the increased hazard incident to the training of airmen and turn to consideration of a policy providing a source of recovery in the event of damage other than fire by a falling plane, the fire damage being covered under his straight fire policy. The introduction of new hazards which are the natural result of new processes such as automatic refrigeration, paint spraying, etc., develop the need for new forms of insurance not provided in the fire contract.

The book is of value to both the buyer of insurance and the general broker. Practical problems are analyzed with appropriate examples. The author explains the basis for the promulgation of rates of premium and in addition to describing the limitations of standard forms shows the means by which further hazards may be covered by the payment of additional premiums.

The principle of co-insurance, often a disturbing factor, is fully explained in connection with each class of protection. The rate charges for some lines such as earthquake insurance and explosion insurance are based on a fixed percentage of co-insurance. Mr. Hubbard clearly discusses these facts and the advantages or penalties attaching thereto.

The author has confined each chapter to consideration of one form of coverage, introduced by means of a uniform digest which embraces functions, how written, rates, exclusions, co-insurance, interest assured, and comments. The treatment of business interruption insurance, or as Mr. Hubbard more properly describes it "earnings insurance" is excellently presented. The set-up, chapter headings, and choice of type are particularly good and much credit is due the author for a publication which really meets the needs of the insurance fraternity.

A. M. MACINTIRE, *Assistant Treasurer,
United Fruit Company.*